

## IDAHO FORECAST DESCRIPTION

### **The Forecast Period is the Third Quarter of 2007 through the Fourth Quarter of 2011**

The current Idaho economic outlook remains similar to the previous forecast, although some of the details have changed. In the October 2007 *Idaho Economic Forecast* nonfarm employment growth was expected to dip to 1.4% this year then accelerate through 2010. Over the 2007-2010 period, it was forecast to average 2.1% per year. In the current forecast, as in the previous one, Idaho nonfarm employment growth slows in 2008, and then it picks up speed thereafter. However, its average growth over the forecast period is slightly higher (2.3% versus 2.1%). By 2010, there are nearly 5,400 (0.8%) more jobs in the current forecast compared to the previous one.

Most of the differences in employment reflect data revisions that occurred after the October 2007 *Idaho Economic Forecast* was published. In October it was reported there were 648,520 jobs in the second quarter of 2007 followed by an estimated 651,033 jobs in the third quarter. The revised data show employment was 656,831 jobs in the second quarter and 659,820 jobs in the third quarter. Thus, employment was actually about 1.3% higher in each quarter than was previously reported. The sectors with the largest upward revisions in the third quarter include construction (2,768 jobs), professional and business services (2,321 jobs), leisure and hospitality services (1,371 jobs), and noneducation-related government (1,108 jobs).

The data revisions may have raised the starting point for the employment forecast, but they did not change its trajectory. As was mentioned above, Idaho nonfarm employment is expected to advance an average of 2.3% per year, which is just 0.2 percentage point faster than in the previous forecast. It should also be noted that most of these gains come early in the forecast cycle. For example, nonfarm employment expands 2.9% in 2007 and 1.6% in 2008. In the previous forecast employment rises just 1.9% in 2007 and 1.4% in 2008. However, it rises faster in the last two years. As a result, the gap between the two employment forecasts goes from 6,823 jobs in 2007, to 8,623 jobs in 2008, to 8,340 jobs in 2009, and shrinks to 5,372 jobs in 2010.

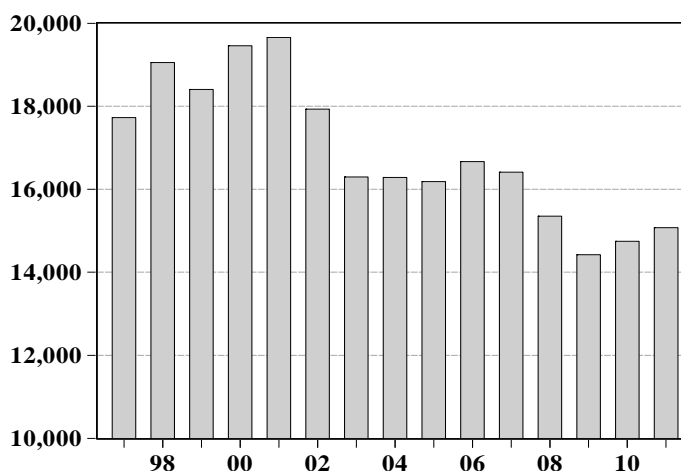
The Idaho personal income forecast has changed little since October 2007. For example, Idaho nominal personal income advances about 6.3% annually over the forecast period, compared to 6.4% in the previous forecast. In 2010, it is \$200 million (-0.4%) lower than in the previous forecast. Even after adjusting for inflation, Idaho personal income is just 0.5% lower in 2010 than the October amount. Since none of the historical personal income data were revised, none of these changes to the forecasts are attributable to a higher starting point. Instead, they reflect the impacts caused by economic fundamentals.

Idaho's economy is expected to slow this year, and then it will gradually pick up speed during the remaining years of the forecast. As in the previous forecasts, Idaho is projected to expand faster than the national economy. From 2007 to 2011, Idaho nonfarm employment is forecast to average 2.4%, which is twice as fast as the average for the nation. Idaho real personal income should increase at a 4.4% annual clip. National real personal income grows 3.2% per year.

## SELECTED IDAHO ECONOMIC INDICATORS

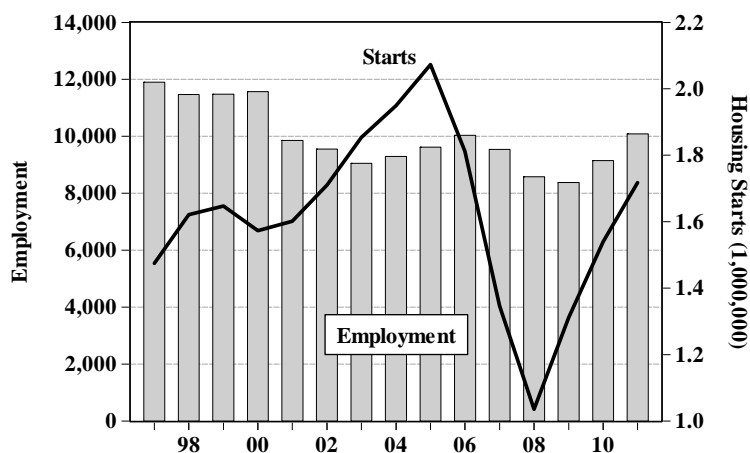
**Computer and Electronics:** The outlook for the state's largest manufacturing sector has changed little since the last forecast. In October 2007, Idaho computer and electronics employment was forecast to shed over 1,900 jobs over the three-year period from 2006 to 2009 and add fewer than 100 jobs in 2010. This malaise is present in the current forecast. Namely, 2,200 jobs are lost from 2006 to 2009 and about 300 jobs in 2010. As in the previous forecast, the current scenario is dominated by the 1,100-job reduction by Micron Technology. Company officials made this move to reduce production costs in order to stem the flow of red ink caused by falling prices for memory devices due to a worldwide glut of these products. For example, Micron Technology lost \$158 million in the last quarter of its fiscal year 2007, and a total of \$320 million last year. It lost \$262 million in the first quarter of its fiscal year 2008, as the prices of memory products continued to slide. Unfortunately, the worldwide imbalance of supply and demand that has depressed prices is not expected to right itself quickly. Idaho computer and electronics manufacturing employment is expected to be 16,411 in 2007, 15,350 in 2008, 14,424 in 2009, 14,746 in 2010, and 15,075 in 2011.

**Idaho Computer and Electronic Products Employment**



**Logging and Wood Products:** Idaho lumber and wood products employment is expected to continue straining under the weight of the national housing retreat. The state's second largest durable manufacturing sector shed jobs during most of 2007, as falling lumber and wood product prices and higher costs caused several mills to curtail their operations. Riley Creek Lumber Company shut down its Moyle Springs sawmill in November, idling 75 employees for two weeks. It also shut down at Christmas

**Idaho Wood Product Employment and U.S. Housing Starts**

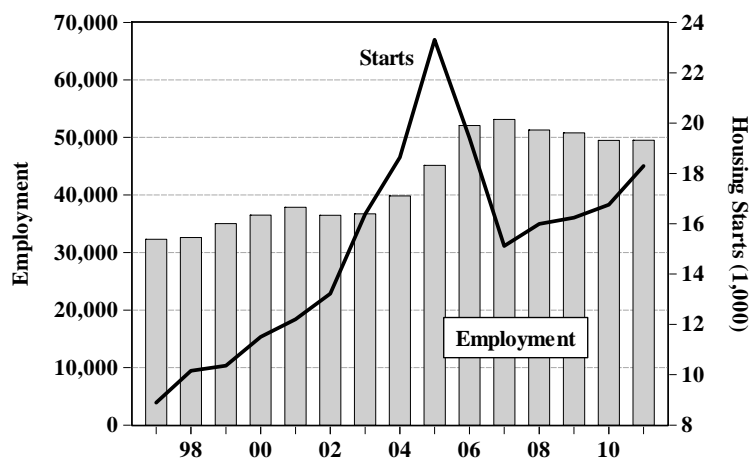


for a week. The Welco cedar mill near Naples also experienced layoffs and shutdowns in 2007. Stimson Lumber ran reduced shifts for most of last year. Unfortunately, this sector's declines have been occurring for some time. It appears Idaho's lumber and wood products sector responded much faster to U.S. housing declines than to its increases. Employment began falling in the third quarter of 2006—just one quarter after U.S. housing starts began retreating. National housing starts began taking off in 2002 and peaked at 2.07 million units in 2005. National wood production expanded 11.1% over this

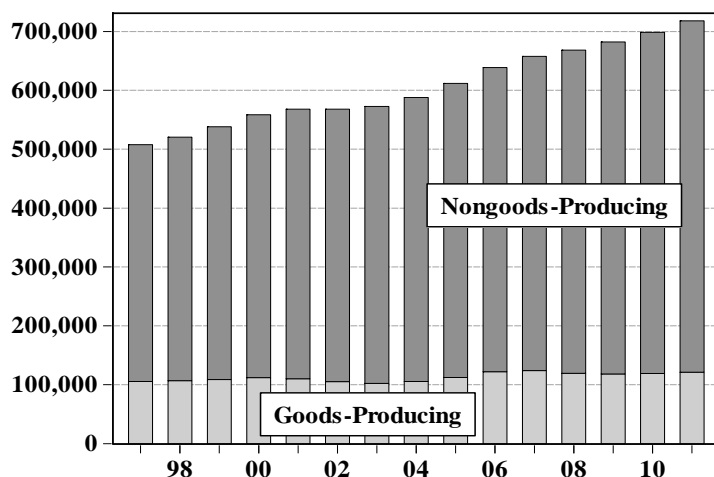
same period. The strong housing sector also led to a run up in lumber prices. Despite these strong conditions, the Gem State's lumber and wood products sector shed about 800 jobs from 2001 to 2003. Its first year-over-year job gain was delayed until 2004. The job expansion lasted until the second quarter of 2006 when employment peaked at around 10,200 jobs. The strong demand caused employment to offset a trend which had been exerting downward pressure on this sector for years. As demand continues ebbing, supply factors will once again dominate this sector's future. The biggest challenge Idaho's lumber and wood products sector faces is the dwindling timber supply from public forests. The U.S. Forest Service estimates the harvest from Idaho national forests fell by 60% from 1994 to 2005. As a result, the national forests' share of Idaho's timber harvest shrank from 28.5% in 1994 to 13.9% in 2005. This decline resulted in the closure of several mills around the state. Ironically, these closings have increased the lumber and wood products sector's overall efficiency. For example, Idaho's lumber and wood products sector produced 1.849 million board feet of lumber in 1994, which comes to about 157 thousand board feet per job. By 2005, output per worker climbed to 211 thousand board feet, a 34.1% increase. This trend is expected to continue, so it appears fewer workers will be needed in the future. Despite the industry's downsizing, excess capacity remains a challenge. It is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. Idaho lumber and wood products employment is forecast to be 9,537 jobs in 2007; 8,579 jobs in 2008; 8,374 jobs in 2009; 9,146 jobs in 2010; and 10,080 jobs in 2011.

**Construction:** The Idaho construction employment forecast has improved slightly compared to the previous forecast. This increase partially stems from revisions to the historical data that raised the starting point for the forecast. The previous data show construction employment falling around 11% in both the second and third quarters of last year. At this pace, employment was 50,489 in the third quarter of 2007. The revised data show Idaho construction employment was 53,257 in the third quarter, which is nearly 2,800 more jobs than in the previous forecast. The revised data also suggest Idaho construction may be more resilient than had been previously believed. This explains why it remains stronger over the forecast period, despite housing starts being lower in the current forecast. Specifically, construction employment declines an average of 1.3% annually through 2010 in the current forecast, while it drops 1.7% in the October 2007 forecast. Although the construction employment outlook has improved, it still pales in comparison to its recent performance. Construction employment growth expanded 5.4% annually from 1997 to 2006, and it was especially strong in the last two years when it grew by 13.3% and 15.4%, respectively. What is particularly remarkable is 2006's employment gain occurred in a year when Idaho housing starts shrank nearly 17.0%. Employment expanded thanks to robust nonresidential building. Unfortunately, this buffer is not likely to buoy employment for long. Idaho housing starts are estimated to have declined by 22.2% last year. Beginning this year, housing starts are forecast to grow again, albeit slowly. After increasing 2.0% in 2007, Idaho construction employment is expected to decline 3.4% in 2008, 1.1% in 2009, 2.5% in 2010, and remain flat in 2011.

**Idaho Construction Employment and Housing Starts**



## Idaho Nonfarm Employment



### Nongoods-Producing Industries:

Idaho's largest private employment sector, nongoods, will also be its fastest growing sector over the forecast period. Its importance should come as no surprise given its huge size. It accounted for roughly two-thirds of last year's job gain. Industries in this sector can be divided into two broad categories: services and trade. The services category had 292,726 employees in 2006 and there were 107,466 trade jobs. The services category consists of information services; financial activities; transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality

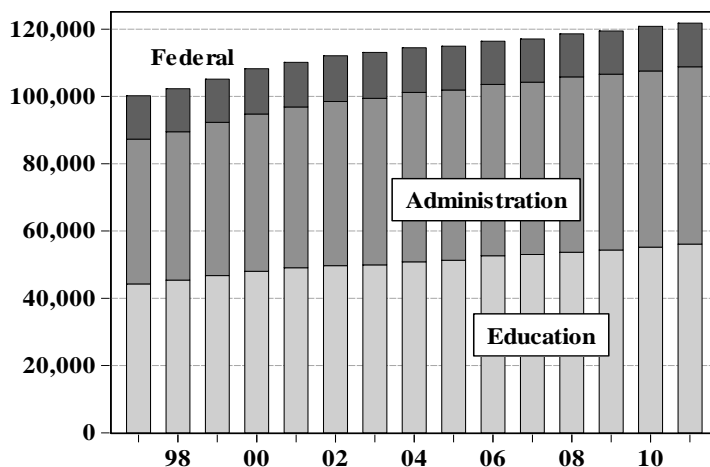
services; and other services. Trade is divided into retail and wholesale categories. Services employment has traditionally been the faster growing of the categories, advancing an average of 3.2% annually over the last five years versus 1.8% for trade employment. One of the services category's strongest performers is professional and business services. This category's employment should expand an average of 3.7% per year over the forecast period. Other hot performers include education and health services and leisure and hospitality services. An interesting trait of the former is that it is driven more by demographics than economics, so it is relatively immune to business cycle swings. This category should add jobs at a 3.9% average annual pace over the forecast period. Leisure and hospitality services should grow at a 3.6% clip. Financial services employment will feel the impact of the cooling local housing market. After expanding by an average of around 6.5% in both 2005 and 2006, its payroll growth will slow to 2.7% annually over the forecast period. After posting a 2.8% showing in 2007, transportation, warehousing, and utilities sector employment will also fall victim to the housing sector's woes and stall. Other services will expand. Information service employment should rise at a 2.3% annual pace. The other services category includes call centers such as Dial 411's new operation that has begun hiring in the Meridian area. Its payroll could reach 300 jobs within its first year of operation. Miscellaneous services employment growth is projected to accelerate over the forecast period. The trade sector's employment should grow an average of 3.8% per year. Employment will benefit from the opening or expansion of several large retailers. North Idaho retailers also hope more favorable exchange rates will draw more Canadian shoppers into their stores.

**Government:** The outlook for Idaho state and local government employment growth has improved slightly compared to the October 2007 *Idaho Economic Forecast*. It is important to note, however, that this increase stems primarily from a revision to historical data, not a significant improvement to economic fundamentals. Last October it was reported that there were 103,754 state and local government jobs in the third quarter of 2007. The revised data show this estimate was too low. The quarter's job count was actually 104,775, a 1,021 increase over the previous estimate. This increase is the net impact of about a 1,100 upward revision to noneducation-related employment and less than 100 jobs reduction to education-related employment. These revisions raised the current starting point for Idaho state and local government employment by about 1,000 jobs. While the starting point of the forecast has been raised, state and local government employment's growth rate is not expected to be much different than in the previous forecast because it is still expected to cool as the state's population

growth slows. The correlation between population and government employment is well established. From 1991 to 2000, Idaho's population increased about 2.5% per year. Over this same period, Idaho state and local government expanded 3.0% annually. This relationship exists because the demands of the growing population puts pressure on existing government resources. Government employment expands apace to meet this demand. An example from the recent past illustrates this point. From 1999 to 2004 population growth slowed to a 1.7% annual pace. State and local government employment growth followed suit, slowing to an average 1.9% annual pace.

Idaho's population growth jumped above 2.5% in both 2005 and 2006 thanks to an influx of over 24,000 new residents in each of both of these years. These new residents accounted for around two-thirds of the total population growth in those years. As Idaho's economy cools, net migration will fall to its lowest point in 2009, accounting for just under half of that year's population growth. Idaho's population is forecast to increase 2.5% in 2007, 2.2% in 2008, 1.9% in 2009, and 2.0% in both 2010 and 2011. Idaho state and local government employment is projected to rise about 1.0% annually over this same period. However, growth rates will differ between the education- and noneducation-related pieces. Idaho education employment is expected to advance about 1.3% per year from 2007 to 2010. During this same period, noneducation-related government employment should expand just under 0.7% annually. Federal government employment in Idaho has hovered near 13,000 jobs over the last few years, and it is projected to continue doing so over most of the forecast horizon. The exception being 2010, when hiring for the U.S. census pushes employment above 13,300.

## Idaho Government Employment



**Mining:** High metal prices have had a couple of noticeable impacts on the Idaho mining sector. First, it has turned around this sector's employment situation. Previous to 2003, Idaho mining employment decreased for five years, dropping from nearly 3,000 jobs in 1997 to about 1,750 jobs in 2002. This downward streak ended in 2003 when mining employment grew by 1.5%. This small increase proved to be the first step in an expansion that would see employment eventually top 2,700 jobs in 2007. Second, higher metal prices have increased expansion and exploration. Using the record profits it earned the last couple of years, Hecla Mining is expanding production at and exploration around its Lucky Friday Mine, where it employs 200 people. U.S. Silver Corp. is mining new finds at the Galena Mine, where another 200 people work, and it now is exploring the feasibility of reopening the Dayrock, a lead and zinc mine three miles northeast of Galena that closed in 1977. Sterling Mining Co. plans to re-open the Sunshine Mine, which closed in 2001, this winter. SNS Silver plans to spend \$3.5 million exploring the Crescent Mine. New Jersey Mining Co. is exploring at the Golden Chest, and its potential looks enormous. Timberline Resource Corp., headquartered in Coeur d'Alene, is exploring the Snowstorm, a historic silver-copper mine, and adjoining properties. Not all of the new activity is taking place north of the Salmon River, however. Standard Silver Corporation of Texas acquired the King Gold Mine that is 50 miles north of Boise. The J.R. Simplot Company is exploring for phosphate in the Dairy Sink Line area near the southeastern corner of the state. All of these projects could increase employment down the road. However, the cooling U.S. economy will make it difficult for mining employment to maintain its

stride in the near term. Specifically, Idaho mining employment is expected to increase 2.2% in 2008, then gradually decline over the remaining years of the forecast.

**Food Processing:** It appears that one of Idaho's manufacturing giants is stirring after a long slumber. Food processing employment grew in 2007 for the first time in a decade. Nearly 360 jobs were lost when the J.R. Simplot Company decided to close its Nampa meat packing plant in the fall of 2003 and shuttered its Heyburn potato processing plant that had run continuously since 1960. More recently, about 400 jobs were lost when the Swift and Company beef processing plant closed. Fortunately, conditions seem to have improved. For example, the Swift and Company beef processing plant has been reopened by XL Foods, Inc. It is anticipated that it will replace all

the jobs lost from Swift's closure once the plant is running at full capacity. Gossner Foods, Inc. opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Brewster Dairy, Inc. has taken over the former Kraft plant in Rupert. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years. Another new plant is High Desert Milk in Burley. When completed, this plant will employ 30 workers to manufacture powdered milk. Idaho Milk Products broke ground on a 180,000-square-foot facility in Jerome in late October. Once operational, the plant will process about 3 million gallons of milk per day into protein powders, lactose permeate, and cream. This recovery is important because food processing is an essential part of the Gem State's economy. This sector had 14,700 jobs in 2006, making it the state's second largest manufacturing employer. Other measures also point to its importance. The value of food manufacturing output accounted for more than half (55.7%) of the total Idaho nondurable manufacturing output from 1997 to 2004 and about 2.6% of the state's total gross domestic product. While 2.6% of output may appear to be a small part of the economy, it masks the state's dependence on this sector. Its relative importance can be seen when it is compared to its national counterpart. Food processing accounted for just 1.6% of U.S. economic output. Food processing employment accounted for 2.3% of the state's nonfarm jobs in 2006, while it accounted for just 1.1% of national nonfarm employment. Clearly, Idaho's economy is more dependent on food processing than the nation. After declining for several years, Idaho food processing employment is expected to expand over the forecast period.

**Idaho Food Processing Employment**

